

**DATE** August 22, 2012

**TO:** Thomas J. Bonfield, City Manager  
**THROUGH:** Keith Chadwell, Deputy City Manager  
**FROM:** Kevin Dick, Director, Office of Economic and Workforce Development (OEWD)  
Christopher Dickey, Senior Manager - Administration  
**SUBJECT:** Public Hearing and Recommended Agreement for Economic Development Incentive with Hawthorne Durham, LLC.

### **Executive Summary**

This item describes the Economic Development project proposed by Hawthorne Durham, LLC within the Urban Growth Area in the City of Durham and a proposed economic development incentive contract between Hawthorne Durham, LLC and the City of Durham.

### **Recommendation**

The Office of Economic and Workforce Development (OEWD) recommends that the City Council:

- 1) Authorize a public hearing on the proposed economic development incentive agreement per G.S. 158-7.1,
- 2) Authorize the City Manager to execute an economic development incentives agreement with Hawthorne Durham, LLC. in an amount not to exceed \$1,000,000.

Approval of this recommendation would require an exception to the Resolution Establishing an Economic Development Financial Assistance Policy for Job Creation, Job Retention and Capital Investment (Resolution #9759 approved April 4, 2011).

### **Background**

Hawthorne Retail Partners, Inc. is a division of The Hawthorne Companies, a diversified real estate investment and management company, whose other division, Hawthorne Residential Partners, is a Charlotte based apartment management and investment Company. According to materials received from the company, Hawthorne Retail Partners, Inc. manages and leases retail and apartment portfolios valued at \$5 billion in over 45 cities in the Southeastern United States. Hawthorne Retail Partners, Inc. has renovated Hope Valley Farms, a 40,524 square feet shopping center located adjacent to a Hope Valley neighborhood in Durham, NC. Hawthorne Retail Partners, Inc, through a major renovation and re-merchandising concept, converted this distressed property into a Class A neighborhood center. The renovation items included façade

enhancements, a new pylon sign, parking lot resurfacing, parking lot lighting upgrades and landscaping upgrades.

Hawthorne Durham, LLC. has proposed a major mixed-use commercial redevelopment project in Southwest Durham called University Marketplace at total development cost of \$58.5M. University Marketplace would be a mixed-use development including 365 multifamily rental-housing units above ground floor retail and two stand-alone retail anchor spaces. The proposed site of this redevelopment is the approximately 15-acre site once referred to as Old Regency Plaza. This project totals approximately 290,400 square feet of residential space, 90,000 square feet of new retail, 15,200 square feet of renovated existing retail space, and construction of a new 625 space parking deck. The proposed project would be anchored by a 20,000 square foot grocer and a second anchor tenant with the remaining retail square footage to be filled by restaurants and other smaller retail users.

The Office of Economic and Workforce Development with the assistance of a third party (RKG and Associates INC) determined that a financial gap exists between the amount of funding needed to make the University Marketplace Project possible. Therefore, we are recommending that the City enter into an Economic Development Incentive Agreement to help close this gap. We have determined that a 7 year payout would not be financially burdensome to the City, since the payout would be based upon a synthetic tax increment financing (TIF) model; in other words, the tax revenues that would accrue to the City and provide the basis for incentive payments would not happen if not for the development and there would be no burden on the existing general fund. The gap analysis confirmed that the gap in the project is larger than what the current economic development policy allows and what incremental tax revenues to the City would produce. Therefore, if the City were to support this project, additional funding sources would need to be identified before the project would be viable.

The initial annual incentive payment shall be \$142,858 for the period beginning FY 2015 and the remaining six annual payments shall be \$142,857 ending in FY 2021 (7 fiscal years resulting in a total incentive payment of \$1,000,000.)

For Hawthorne Durham, LLC. to be eligible for incentive payments, qualified Capital Investment expenditures shall not be less than \$40.5M. Failure to complete the project by the projected timelines to be established or failure to make a qualified Capital Investment of at least \$40.5M will result in Hawthorne Durham, LLC. being ineligible for incentive payments.

#### **Issues and Analysis**

A major priority of the City of Durham is to increase and strengthen the economic stability of the City. Over the seven year period of payments, the projected City share of tax revenues would be approximately \$1.4M and over twenty years, the estimated tax revenues to the City would be over \$4.0M. Over six hundred ninety (690) jobs (370 new long-term jobs and 320 temporary construction jobs) are anticipated for creation. The total development cost of the project is estimated to be \$58.5M and the qualified Capital Investment expenditures portion of the project is \$40.5M. Within the Urban Growth Area but Outside a CDA, the amount of incentive allowable under the Resolution Establishing an Economic Development Financial Assistance Policy for Job Creation, Job Retention and Capital Investment (Resolution #9759

approved April 4, 2011) would be 1.500% of qualified Capital Investment expenditures or \$607,500.

OEWD is recommending an exception to the policy and approval of an incentive in an amount not to exceed \$1,000,000 or 2.469 % of Qualified Capital Investment expenditures. The public commitment of \$1,000,000 sends a strong message to potential investors that the City is invested in the deal. Typically, public commitments drive investor confidence. Therefore, the \$1,000,000 is a stabilizing influence in determining whether other key sources to provide the additionally funded that is needed for a viable project. Additional reasons to recommend this exception are included below:

#### Project Benefits

1. This project has the potential to create 690 new jobs (370 permanent and 320 temporary construction related). The permanent jobs would be a mix of management, supervisory, and entry-level positions that should provide opportunities for job seekers with various types of skill sets.
  - A Durham Workforce plan would be part of the contract and would stipulate that Durham JobLink registrants would have opportunities to be recruited for temporary jobs. Recruitment events and direct informational sessions conducted by the general contractor and sub-contractors in conjunction with OEWD would take place.
  - We would also inform the potential retailers about the JobLink system as a source of recruitment. This Workforce Plan builds upon the training opportunities that have been offered by the Durham JobLink system under the auspices of the City and County consistent with the vision articulated by Mayor Bell in the 2010 State of the City address. Over 170 individuals have been trained in construction-related trades in programs administered by the Office of Economic and Workforce Development and Durham County Criminal Justice Resource Center since 2009. The jobs that will be available are likely to be the types of jobs that would serve as the entry level opportunities from which disconnected youth, ex-offenders and other hard to serve populations could benefit and those for which they could compete. Studies such as those concluded by MDC and recently concluded with the IBM Smarter Cities Challenge Report would be consistent with the creation of such opportunities.
2. The Durham-based business plan would afford the opportunity for construction-related businesses to bid on work associated with the \$40.5 million of construction opportunities associated with the project. OEWD databases will be shared with the

developer and technical assistance and capacity building workshops will be held as needed. Recruitment events and direct informational sessions conducted by the general contractor and sub-contractors in conjunction with OEWD would take place.

3. The proposed project is consistent with suburban scale TOD development (4 floors). It contains TOD elements by providing a live-work environment that enhances internal (within the development) and external (to surrounding properties) pedestrian connectivity. This project would produce approximately 330 high quality residential rental units consisting of 1, 2, and 3 bedroom apartments as well as over 100,000 square feet of retail space which would consist of 30 to 35 retailers. Within short walking distance are the proposed TTA rail transit stop, bus stops and a park and ride facility that would connect residents and workers with the development.
4. According to studies conducted by the Victoria Transit Policy Institute in 2011 and Reconnection America .org, the components of this project would contain elements of transit oriented-development for multiple reasons.
  - Based upon 2010 Durham census figures the population density would be approximately 8 times as much as that for the entire city of Durham and 16 times as much as the County of Durham. At a projected amount of 400 residents on the 15 acre tract, the development corresponds to a density of over 16,000 persons per square mile. 2010 Census figures indicate that the City of Durham has a density of approximately 2,100 persons per square mile while the County density was approximately 935 persons per square mile.
  - The employment density would be in line with those described in the aforementioned study and would supplement the residential density, supporting the tenets of transit-oriented development.
5. Waiting until a new transit stop is operational adjacent to the subject property would have a negative impact on the potential fiscal benefits from this property.
  - The financial feasibility analysis conducted by a third party consultant indicates that the project cannot be developed without the incentives and there is no local market data to suggest a transit stop will change the market fundamentals of the project.
  - Furthermore, there is no certainty that the Orange County referendum will pass next year and if it is not passed, there is no certainty of rail transit in the area.

- Even if the development of a transit stop does alter the market so that incentives are not necessary, the development of this transit stop is more than seven years away. The incentive will have expired prior to this development, and the City will not benefit from the new tax revenue of the University Marketplace project. The opportunity for a \$58.3M development, the creation of 690 jobs and new residential and shopping opportunities would be forgone.
  - Waiting for future development while the area declines further could increase the costs of redevelopment in the future.
6. Based upon staff analysis that was supported by a third party consultant both the residential and commercial components of the project are anticipated to lease quickly and therefore, the project is deemed viable from a profitability standpoint.
  7. This project would enhance the market viability and aesthetics of a key gateway into the community that has fallen into disinvestment. Allowing the property to remain “as is” for an extended period likely will have continued adverse impacts on the surrounding properties. In fact, many of the immediate adjacent parcels are vacant and in declining condition. The University Marketplace project could trigger additional reinvestment into the immediate area.
  8. The Durham Comprehensive Plan was adopted by City Council in second quarter of 2012. The University Market Place project supports the goal of Economic Development and the objectives of a Balanced Economic Growth and Targeted Redevelopment by creating jobs, expanding the tax base and encouraging new business location that is compatible with Durham’s land use plans and policies.
  9. The project would constitute no financial risk to the City. Firstly, the funds for the incentive are generated by the incremental increase in property taxes of the proposed development. Without the project, that revenue will not be realized by the City. Secondly, the incentives are to be paid after construction is fully complete. If the developer does not deliver on the project per the agreement, the City would not have not have to award the incentive. Thirdly, a comparative Cost Benefit Analysis was conducted by staff to take into consideration new tax revenues that would generated and additional General Fund expenditures that would incurred by the City of Durham. The calculations took into account incremental real property tax revenue, additional sales tax, beer & wine tax, gas tax, utility franchise tax and impact fees. The Cost Benefit Analysis indicates the project will generate more total tax revenue (annually) than the City is providing in incentives. The calculations show the City is projected to receive a net increase of \$ 1,792,007 in cumulative General Fund gains over the 10-year period of proposed incentive payouts.

It is important to note that the increased revenues to be derived from this project could provide the opportunity for the City to make budgetary decisions in the future that address other City priorities, such as affordable housing, infrastructure in targeted areas and economic development financial assistance in targeted areas.

The anticipated sources of capital for the project are as follows:

Source	Amount
Source 1 Hawthorne	\$16,220,935
Source 2 Bank	\$40,345,530
Source 3 City	\$1,000,000
Source 4 Other	\$1,000,000
	<b>\$58,566,465</b>

#### Payments for Qualified Capital Expenditures

The City would agree to pay Hawthorne Durham, LLC up to \$1,000,000 to build approximately 330 multifamily rental-housing units above ground floor retail and two stand-alone retail anchor spaces. The project totals approximately 290,400 square feet of residential space, 90,000 square feet of new retail, 15,200 square feet of renovated existing retail space, and the construction of a new 625 space parking deck.

Other requirements in order to be eligible for the incentives include, but are not limited to the following:

- A Workforce Development Agreement to ensure that Durham residents get an opportunity to apply for positions through Job Link;
- Documented evidence of capital investment expenditures for space to be occupied at relevant timeframes; and
- A Durham Based Business Plan to ensure that Durham-based businesses (including those certified by the City and other governing agencies as small and disadvantaged businesses) get opportunities to bid on work associated with the redevelopment project.
- A commitment to make approximately 15% of the total residential units in the project available for rent at a monthly rate that does not exceed thirty percent of eighty percent of the monthly median income level for a family of four in the Metropolitan Statistical Area to which Durham is assigned by the United States Department of Housing and Urban Development for each year that Company invoices the City for an incentive payment.

**Alternatives**

City Council could decide to not incentivize Hawthorne Durham, LLC. and risk losing the redevelopment of University Marketplace as catalyst project that could further promote reinvestment and redevelopment of underutilized properties in this area.

**Financial Impact**

The Office of Economic and Workforce Development in conjunction with City staff has conducted a Cost Benefit Analysis (see attached Cost Benefit Analysis University Market Place) which identifies the financial impact to the City. It identifies revenue sources and expenditures that would be incurred by the City. The calculations show the City is projected to receive a net increase of \$1,792,007.00 in cumulative General Fund gains over a ten year period from the fiscal year in which payments would start. OEWD is proposing that \$142,858 in year one and \$142,857 in years two through seven) be paid to the developer from the project. The incentive payments to be made over time are not currently in the City General Fund budget. However, funding would be available based upon incremental tax revenues that are anticipated in the project.

**SDBE Summary**

While no specific SDBE provisions are specifically required by ordinance for this agreement, it is understood that if this agreement is approved, Greenfire Development, LLC will be required to develop and implement a plan to make a good faith efforts to use Durham-based firms for contracting activities.

**Attachments**

- Cost Benefit Analysis University Market Place
- Economic development incentive contract between Hawthorne Durham, LLC and the City of Durham
- Examples of Other Hawthorne Retail Partners Projects in which there has been Workforce Housing